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SUBJECT: ZAMBIAN AIRWAYS' FAILURE A "GOVERNMENT TAKEDOWN"

Classified By: Ambassador Donald E. Booth, reasons 1.4, b/d.

¶1. (SBU) Summary and Comment: Zambian Airways claims the Zambian Government destroyed creditor and consumer confidence in it and drove it into bankruptcy because of vendettas against the airline's primary stakeholders. Although its business practices are questionable, at the very least, Zambian Airways has become a political football. The airline is hoping skittish creditors will restructure its debts, but Raytheon, to which Zambian Airways has defaulted on lease payments, wants to move its two aircraft out of Zambia ASAP and ultimately repossess them. The Embassy will track Raytheon progress and make appropriate representations if anyone tries to seize its assets. End Summary and Comment.

¶2. (C) Zambian Airways (ZA) Chief (and 50 percent stakeholder) Mutembo Nchito told Pol/Econ Chief January 29 that his airline's failure was a result of a Government of Zambia (GRZ) vendetta against him and one of his partners, the anti-government newspaper "The Post" (a 30 percent stakeholder). (The other main stakeholder is Seaboard Milling, a U.S. company, which holds 12.5 percent of ZA.) Nchito noted that he had met with Minister of Communications and Transport Dora Siliya in May 2008 to discuss ZA's financial troubles and request government flexibility in the collection of debts owed to the National Airport Corporation.

Nchito said Siliya was open to arriving at some arrangement that would keep Zambia's only quasi-national carrier afloat. However in the subsequent period during which President Mwanawasa fell ill and later passed away, the Minister of Finance Magande and Siliya found themselves at odds on the subject. According to another Embassy source, Mwanawasa had urged Magande to buy a GRZ stake in ZA. When Magande began using the airline to campaign against Vice President Banda around the country, however, Banda killed the deal. The Banda government then seemed to take delight in broadcasting ZA's instability, which caused banks to withhold credit to the company and travelers to seek alternative carriers. As stories of delayed, canceled, and chaotic flights spread, the failure of ZA became a self-fulfilling prophecy.

¶3. (SBU) Critics say ZA expanded too quickly, accruing too much debt and then offering rock-bottom fares on certain routes to undercut South African Airlines. It also apparently delayed paying airport service charges and landing fees to the National Airport Corporation/GRZ for almost five years despite having collected those fees from passengers. By 2008, it owed the National Airport Corporation USD 2 million.

¶4. (SBU) Nchito happens to be a prosecutor for the Task Force on Corruption (TFC), leading the prosecution against former President Chiluba and ruling party MMD Secretary General Katele Kalumba, among others. The government has no love for "The Post," the only truly independent newspaper in Zambia and one which abandoned all standards of professionalism in its efforts to undermine President Banda's candidacy in the autumn of 2008. In fact, the judge in the corruption trial of Chiluba recently barred "The Post" from covering the trial, claiming that it was misrepresenting the facts, a standard to which Zambian newspapers are not usually held.

¶5. (SBU) Nchito is hoping the banks to whom ZA is indebted will overcome the skittishness caused by the GRZ's antipathy toward ZA and agree to restructure ZA's debts or, if necessary, liquidate its assets. For now, ZA is in a holding pattern, creditors (including passengers whose flights were canceled) are not being paid, nor are the 260 ZA employees. The GRZ has accused Nchito of skimming money off the company, but Nchito claims he is completely broke, which may be true given that the Task Force on Corruption has not paid its prosecutors in over nine months.

¶6. (SBU) In the meantime, the Embassy has been contacted by Raytheon Aircraft Credit Corporation (RACC), which wants to repossess two Beechcraft Model 1900D aircraft leased to ZA, worth USD 2.7 million each. RACC expressed concern that in previous repossession processes (outside of Zambia), other creditors and even host governments try to hold hostage or seize RACC assets in order to retrieve debts. Therefore, RACC would like its two aircraft transferred to a Raytheon distributor in South Africa soonest. The first aircraft is expected to depart February 3, while the second is in need of a new engine before it can fly. Nchito assured Pol/Econ chief that he is in constant contact with RACC and is cooperating to comply with Raytheon's wishes.

¶7. (SBU) Comment: Zambian Airways, whatever its failures as a business might be, has obviously become a political football. The GRZ has made statements saying that ZA is not a special case and will not be bailed out. In the very same newscycle, it then announced that mining parastatal ZCCM-IH would take over a failing copper mine to keep the mineworkers employed. The 260 employees of ZA do not have the same hold over the MMD that the thousands of mineworkers, who overwhelmingly support President Banda's Patriotic Front rival Michael Sata, do. Furthermore, the GRZ's apparently active undermining of ZA is unfortunate in an economy that can ill-afford to lose businesses, particularly in a niche field that provides travel infrastructure for tourists where roads are inadequate. If there is any attempt to seize Raytheon property, the Embassy will make appropriate representations.

BOOTH